



Osher Lifelong Learning Institute, Winter 2022 **Contemporary Economic Policy**

Santa Clara University
February 9, 2022

National Economic Education Delegation



National Economic Education Delegation

- **Vision**

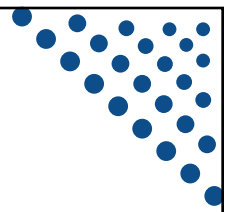
- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

- **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

- **NEED Presentations**

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.



Course Outline

• Contemporary Economic Policy

- Week 1 (1/5): US Economy & Coronavirus Economics
- Week 2 (1/12): Climate Change Economics (Bevin Ashenmiller, Occidental College)
- Week 3 (1/19): Health Economics (Me)
- Week 4 (1/26): Economics of Immigration (Jennifer Alix-Garcia, Oregon St.)
- Week 5 (2/2): Infrastructure Economics (Mallika Pung, Univ. of New Mexico)
- **Week 6 (2/9): The U.S. Safety Net (Marianne Bitler, UC Davis)**



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The U.S. Safety Net

An Overview of United States Safety Net Programs

Marianne Bitler
University of California, Davis and Federal Reserve Bank
of Minneapolis



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The views expressed are those of the author and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.



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Who Are We?

• Honorary Board: 47 members

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

• Delegates: 500+ members

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

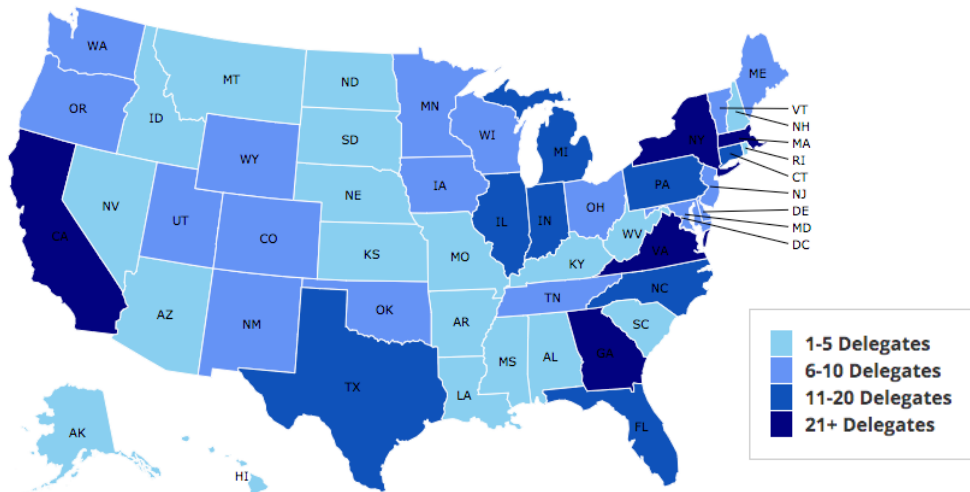
• Global Partners: 45 Ph.D. Economists

- Aid in slide deck development



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Where Are We?



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Credits and Disclaimer

- **This slide deck was authored by:**
 - Ann Stevens, University of Texas – Austin
 - Natalie Sweet, University of California – Davis
- **This slide deck was reviewed by:**
 - Diane Whitmore Schanzenbach, Northwestern University
 - Ron Haskins, Brookings Institution
- **Disclaimer**
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 - It is, however, inevitable that the presenter will be asked for and will provide their own views
 - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED)

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Overview of Major Safety Net Programs

- **What programs are included in the “safety net”?**
 - **Means-tested** (must have low income to receive)
 - **Federal programs** (often with state partnership in financing & running programs)
 - **Provision** of cash, services or in-kind benefits, tax credits/refunds
- **What programs are not included?**
 - Social Insurance: non-means tested, participants pay in to system
 - Example: Unemployment Insurance, Social Security, Disability Insurance
 - (Though these programs also assist the poor)



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Major Safety Net Programs

- **Medicaid**
- **Supplemental Security Income (SSI)**
- **Temporary Assistance to Needy Families (TANF)**
 - (formerly AFDC)
- **Earned Income Tax Credit (EITC)**
- **Supplemental Nutrition Assistance Program (SNAP)**
 - (formerly food stamps)
- **School nutrition programs**
- **Special Supplemental Nutrition Program for Women, Infants and Children (WIC)**
- **Housing Assistance**
 - Vouchers
 - Rental Assistance
 - Public Housing
- **Head Start**



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 - Rental Assistance
 - Public Housing
- Headstart



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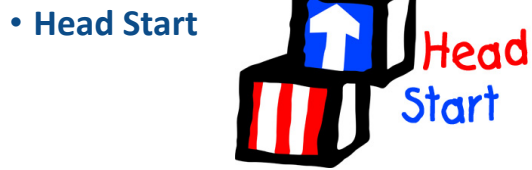
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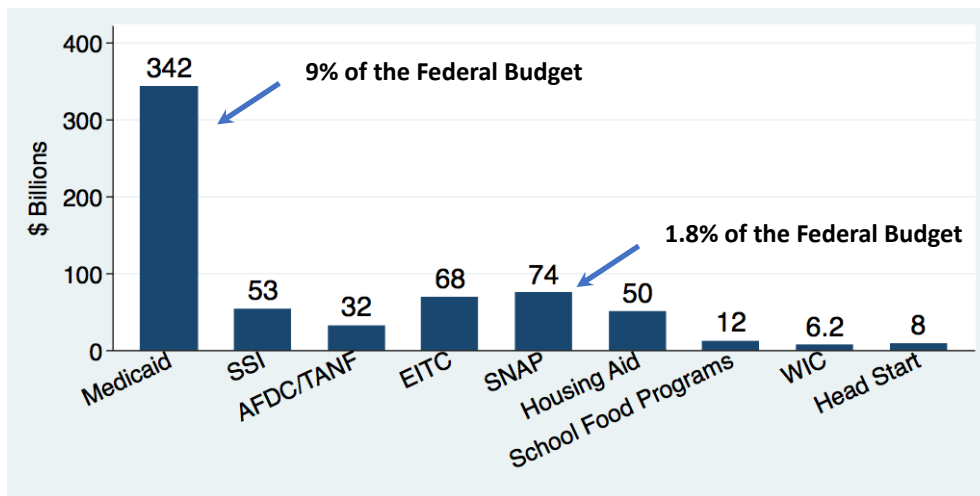


- School nutrition programs
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 - Vouchers
 - Rental Assistance
 - Public Housing



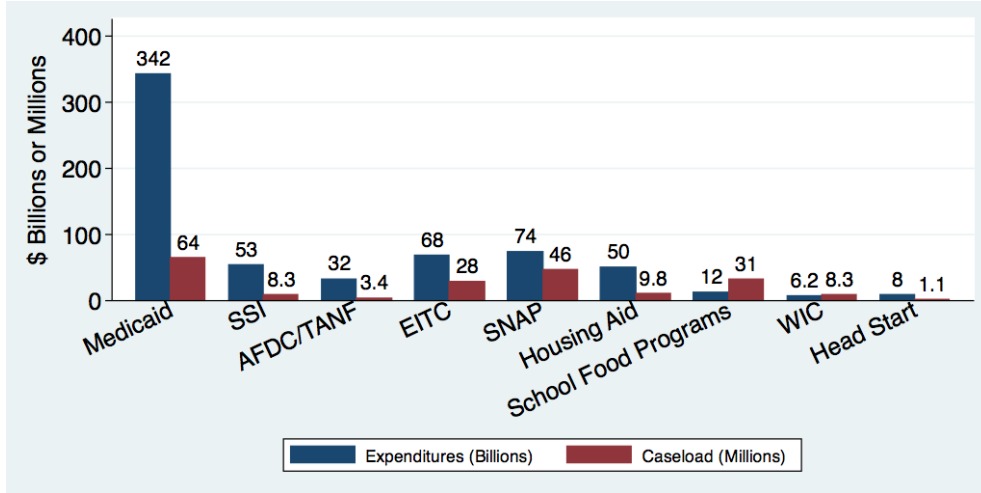
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U.S. Safety Net Programs, Federal Expenditures 2014 or 2015



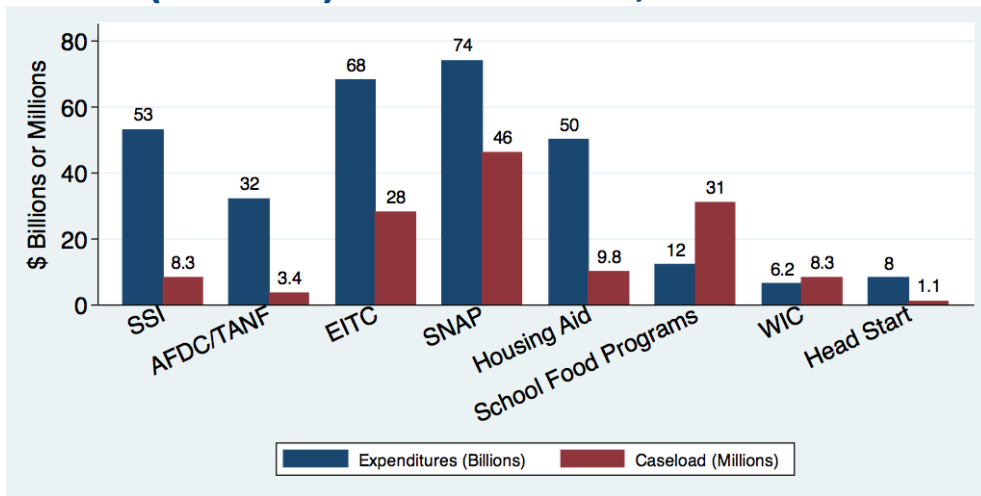
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U.S. Safety Net Expenditures (\$ Billions) and Caseload (Millions), 2014 or 2015



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U.S. Safety Net Expenditures (\$ Billions) and Caseload (Millions) – No Medicaid, 2014 or 2015



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MEDICAID & CHIP

- **Eligibility**
 - **Expansion states:** most under age of 65 with incomes < 133% of poverty line
 - **Non-expansion states:** children with income < 133% of poverty line; parents up to lower income cutoffs, ~43% of poverty line.
 - **CHIP:** children up to 200% of poverty line (46 states)
- **Participants**
 - **74.9 million** people in 2017 on Medicaid (including CHIP)
- **Spending**
 - Total spending in 2016 was **\$565.5 billion** (63% federal)



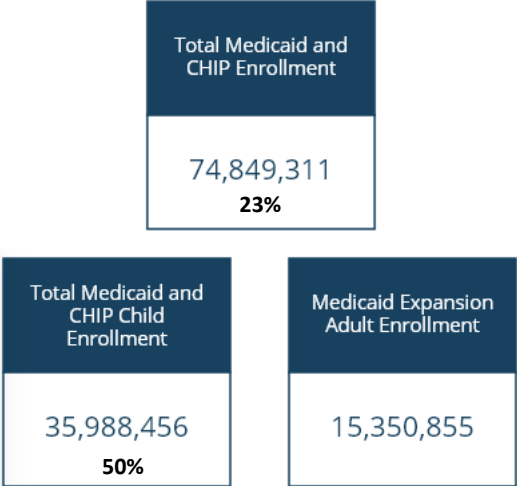
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Eligibility & Enrollment

- **Children**
- **Pregnant women**
- **Very low-income adults**
- **People with disabilities**
- **Elderly, poor adults**



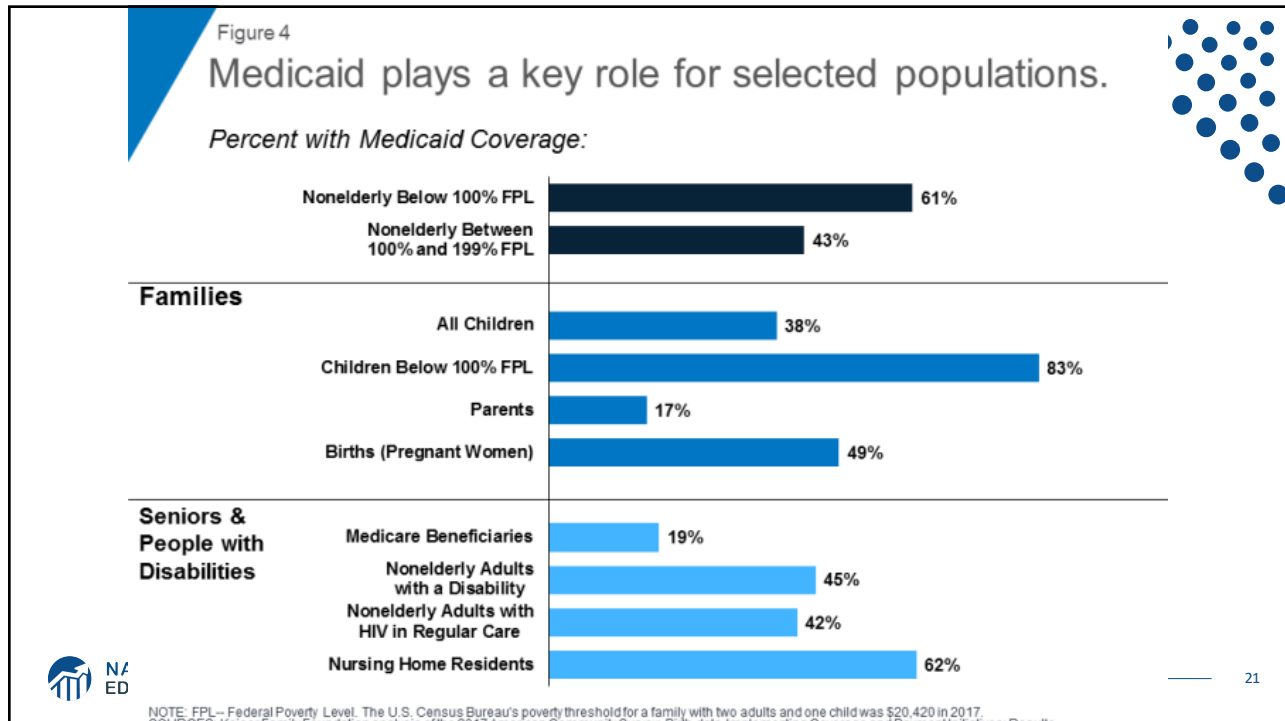
Total Medicaid and CHIP Enrollment	74,849,311	23%
Total Medicaid and CHIP Child Enrollment	35,988,456	50%
Medicaid Expansion Adult Enrollment	15,350,855	



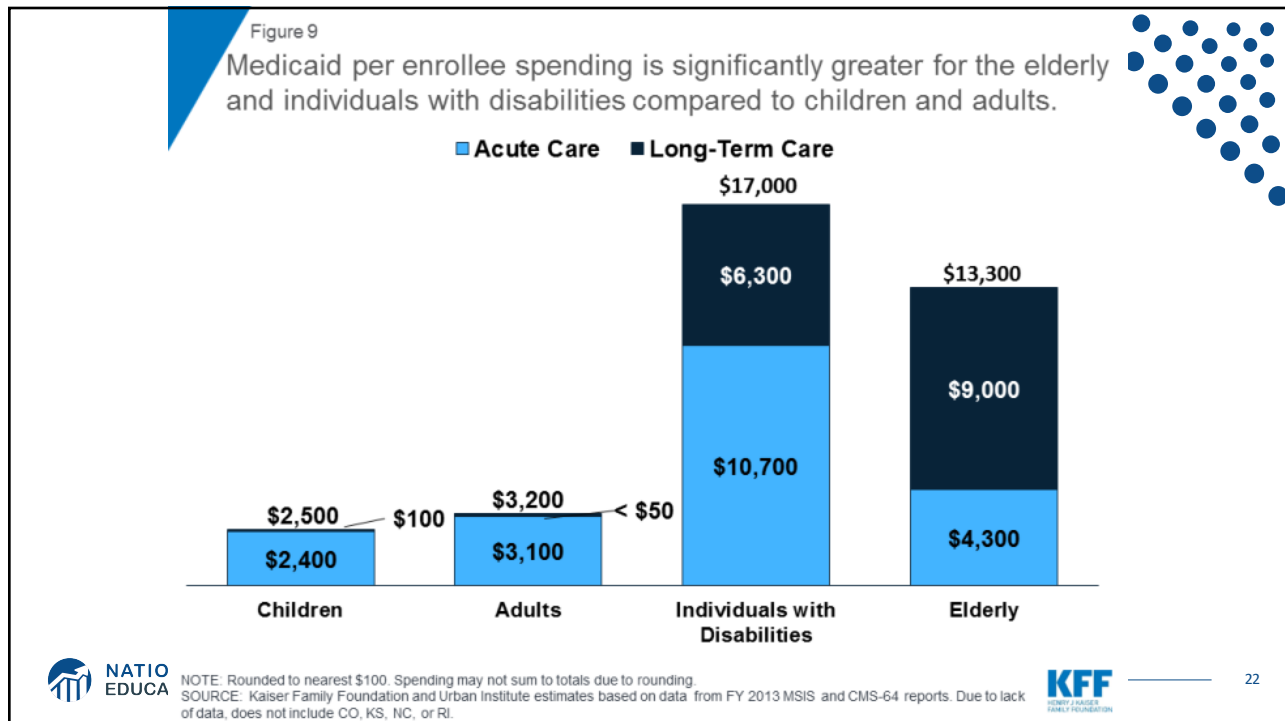
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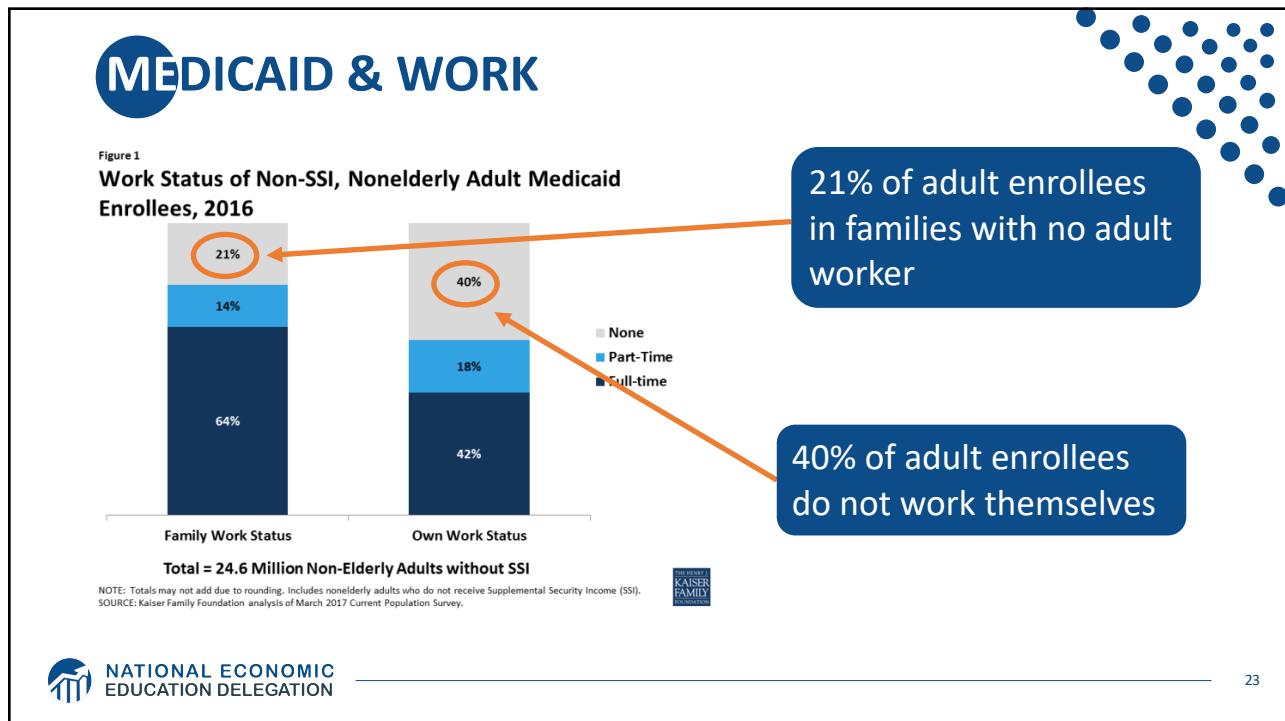
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Supplemental Security Income (SSI)

- **Eligibility:** Disabled/blind adults and children with low income; people 65 and older with low income.
- **Participants:** In 2016, **4.8 million** people received SSI.
- **Spending:** Total spending from June 2015-June 2016 was roughly **\$53 billion**.

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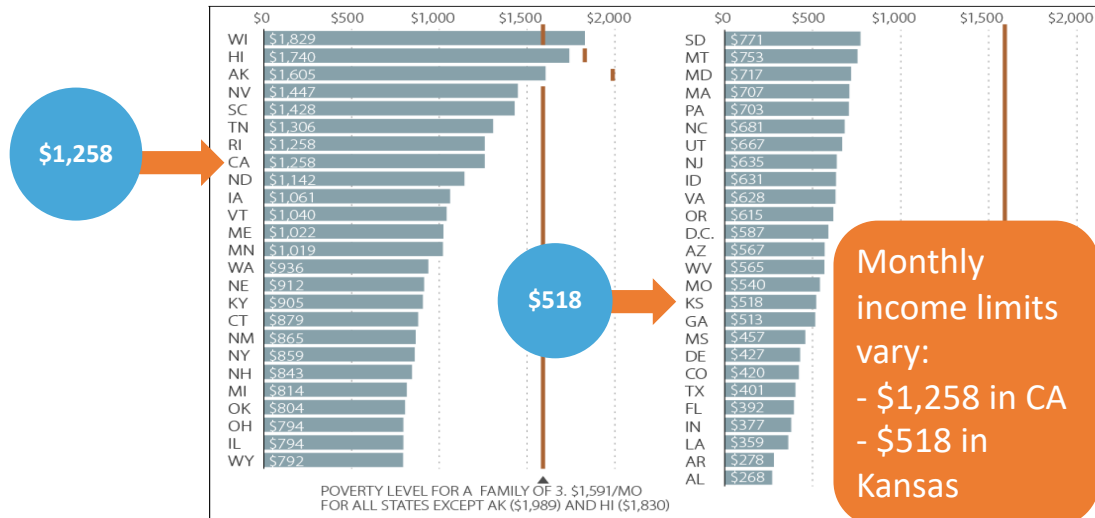
TANF: Temporary Assistance for Needy Families Formerly AFDC: Aid to Families with Dependent Children

- **Eligibility:** Poor families with children, primarily single mothers
- **Federal limit of 60 months of lifetime benefits**
 - Some states have shorter limits
 - Work, job search, or training requirements
- **Participants:** In 2017, *2.5 million families*
- **Spending:** In 2017, total spending of **\$31.7 billion** (\$17.3 billion federal)



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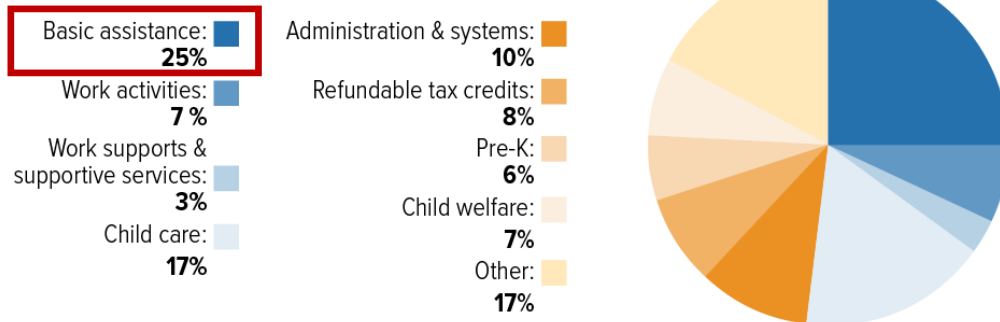
Figure 1. Maximum Monthly Earnings An Applicant Family May Have and Be Eligible for TANF Cash Assistance: Single Parent Caring for Two Children: July 2012



Source: Congressional Research Service (CRS), based on data from the Urban Institute's Welfare Rules Database

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How States Spent Federal and State TANF Funds in 2015



Note: TANF = Temporary Assistance for Needy Families.

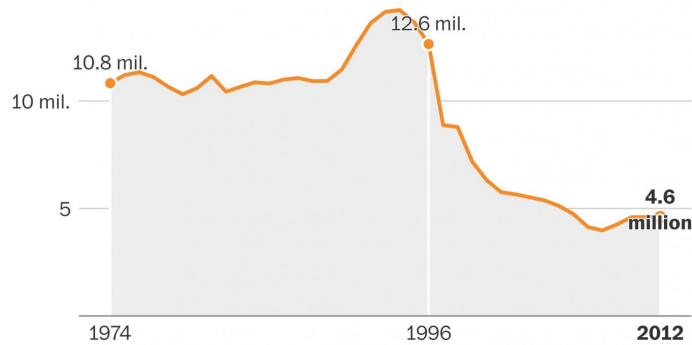
Source: CBPP analysis of Department of Health and Human Services 2015 TANF financial data

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Welfare rolls declined after reform

The number of Americans receiving welfare payments from the federal government fell abruptly during the Clinton administration.



Caseloads have clearly fallen and stayed down, even during recession

Includes both Aid to Families with Dependent Children and Temporary Assistance to Needy Families.

Source: Hartley, R.P., Lamarche, C. and Ziliak, J. 2016 (working paper).

THE WASHINGTON POST

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EITC: Earned Income Tax Credit

- **Federal tax credit designed for low and mid-income working people**
- **Eligibility-** Working families with children that have annual incomes below a range of \$39,000 to \$53,000
 - Small credit for working individuals with no children & low incomes
- **Participants** - In 2015, **28 million** working families and individuals received EITC
- **Spending-** In the 2015, the cost of EITC was **\$68.5 billion**



SNAP: Supplemental Nutrition Assistance Program

- **Nutrition assistance to low-income individuals and families**
- **Eligibility:** Monthly income no higher than 130% of the poverty level for their household size.
 - Some people who receive SSI are automatically eligible for SNAP, dependent on state laws.
- **Participants:** In 2017, an average of **42.1 million** receiving SNAP.
- **Spending:** In 2017, **\$68 billion** was spent to fund SNAP.

SNAP

(Supplemental Nutrition Assistance Program)

SNAP Households with Working-Age Non-Disabled Adults Have High Work Rates

Work participation during the previous and following year for households that received SNAP in a typical month

Category	All SNAP households	Families with children
Employed in month of SNAP receipt	58%	62%
Employed within a year	82%	87%

Source: CBPP calculations based on 2004 Survey of Income and Program Participation Panel data.

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Most SNAP recipients are employed

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SCHOOL FOOD PROGRAMS

(National School Lunch Program)

- **The school lunch program serves nutritionally balanced low-cost or free lunches to children in school each day.**
- **Eligibility:** Students who attend public and non-profit private schools, as well as residential child care institutions, are potentially eligible.
- **Participants:** Over **30.4 million** children every day were served by the program in the 2016 year.
- **Spending:** In 2016, the program cost was **\$13.6 billion**.

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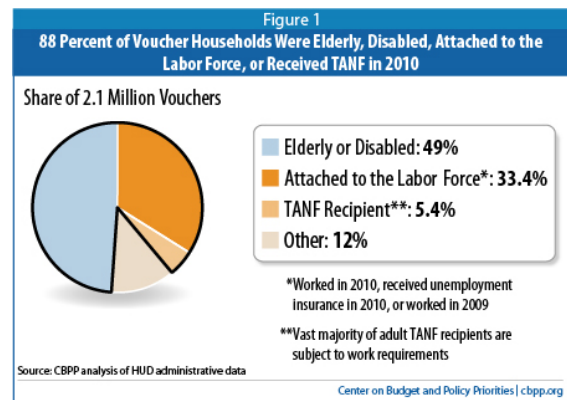
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WIC (Special Supplemental Nutrition Program for Women, Infants, and Children)

- **Eligibility:** Low income women, infants, and children up to the age of 5 who are at nutritional risk.
- **Participants:** During 2016, WIC served **8 million people**.
 - 3.98 million participants were children,
 - 1.88 million were infants, and
 - 1.84 million were *pregnant* women.
- **Spending:** In 2017, the WIC program cost **\$6.5 billion**.

HOUSING AID Housing Choice Voucher Program (Section 8)

- **Eligibility:** Low income families, the elderly, and the disabled are eligible to receive the vouchers. Family income must be less than **50% of local median income**.
- **Participants:** Just over **5.3 million individuals**, or 2.2 million low income families utilize the vouchers.
- **Spending:** During the 2016 year, the amount spent was **\$17.5 billion**.



HEAD START

- **Eligibility:** Primarily low-income children (0-5).
- **Participants:** In 2016, **1.1 million children** were served by the program.
- **Spending:** In the 2016 year, **\$9.16 billion** was spent on Head Start.



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Safety Net: A Collection of Separate Programs

- **Medical Assistance**
- **Cash Assistance**
- **Nutritional Assistance**
- **Housing Programs**



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Safety Net: A Collection of Separate Programs

- **Different forms of assistance**
 - Medical Assistance
 - Cash Assistance
 - Nutritional Assistance
 - Housing Programs
- **Different eligibility (income & categorical)**
- **Different work rules and limits**
- **Different agencies and funding streams**



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Social Insurance Programs: Not Means-Tested

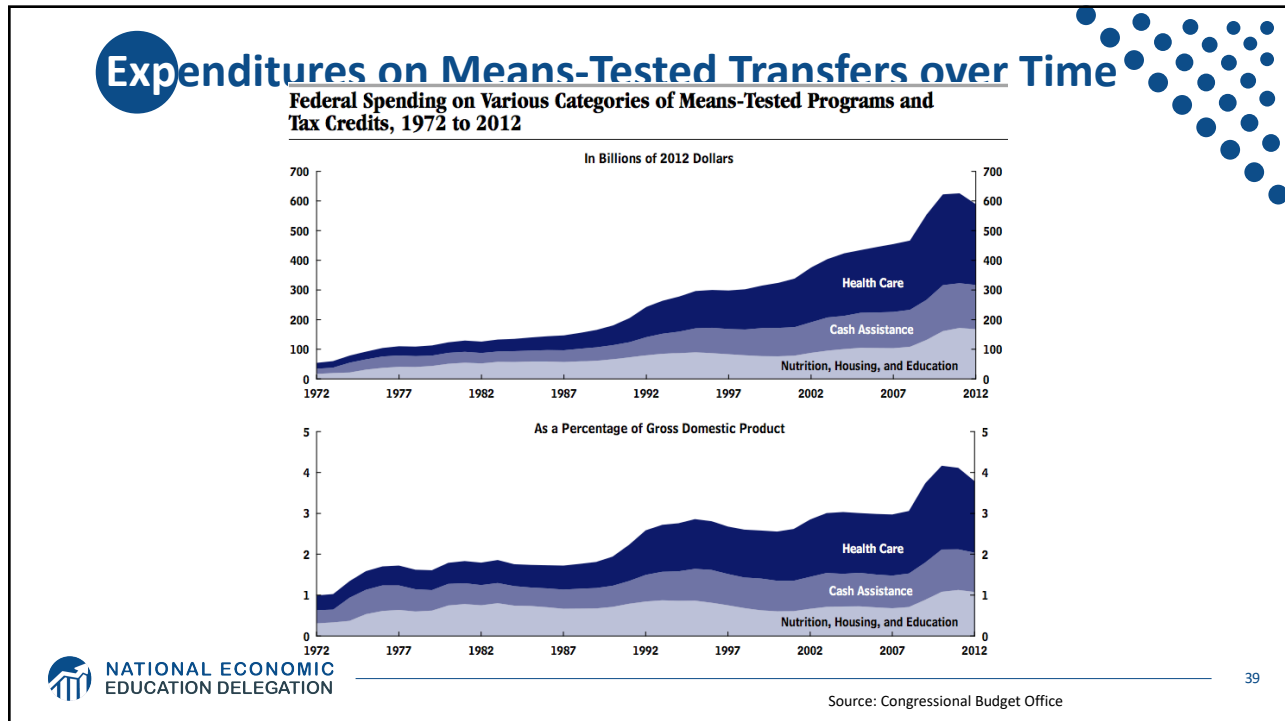
- **Social Security
(Old Age and Survivors Insurance Program)**
- **Medicare**
- **Unemployment Insurance**
- **Disability Insurance**
- **Workers' Compensation**



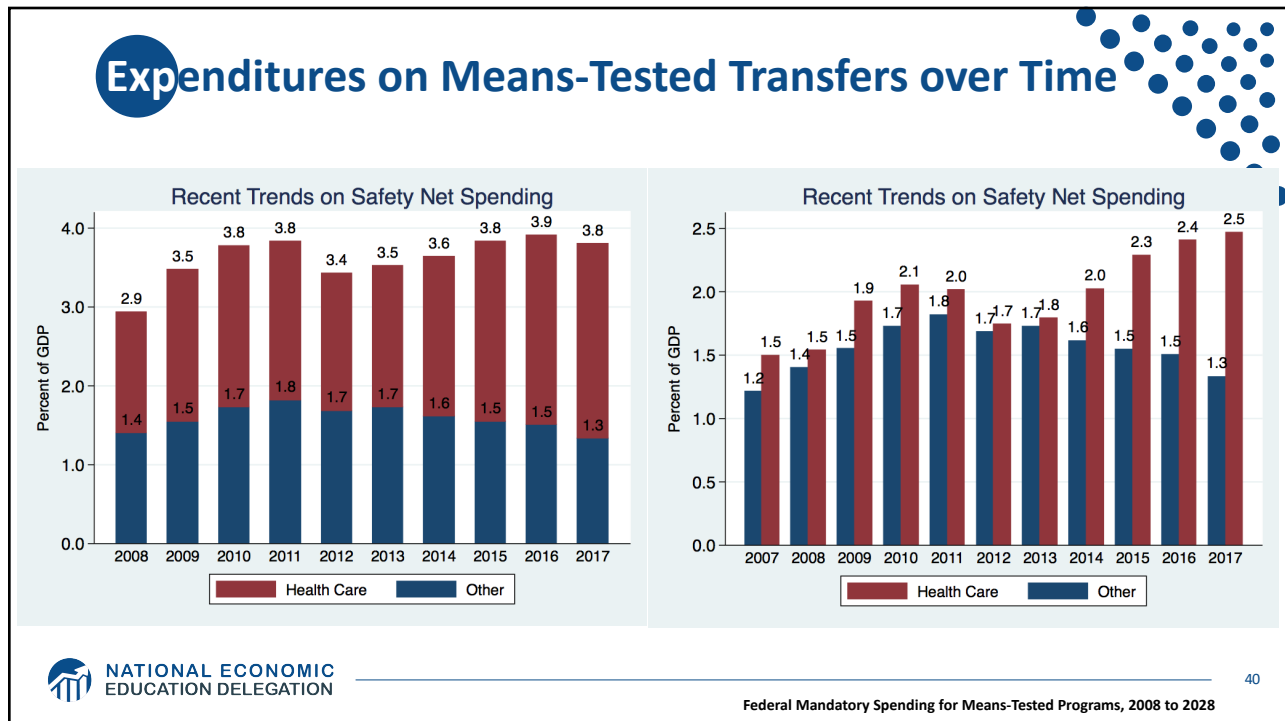
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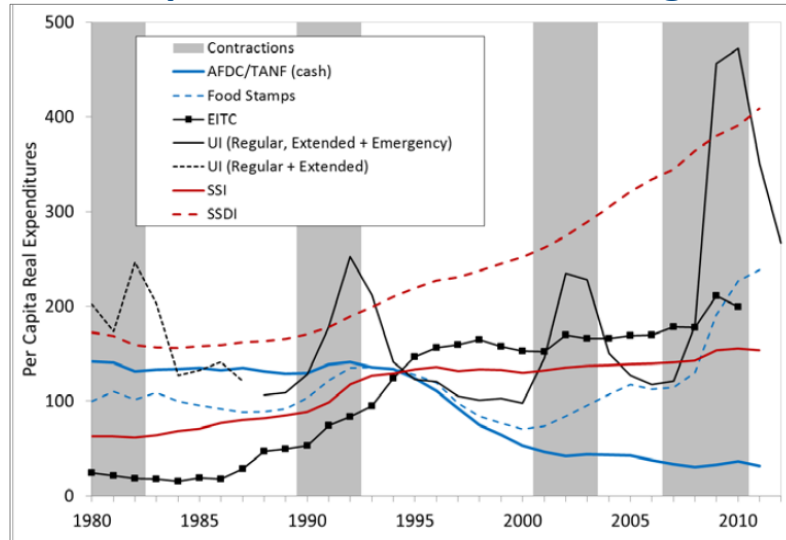


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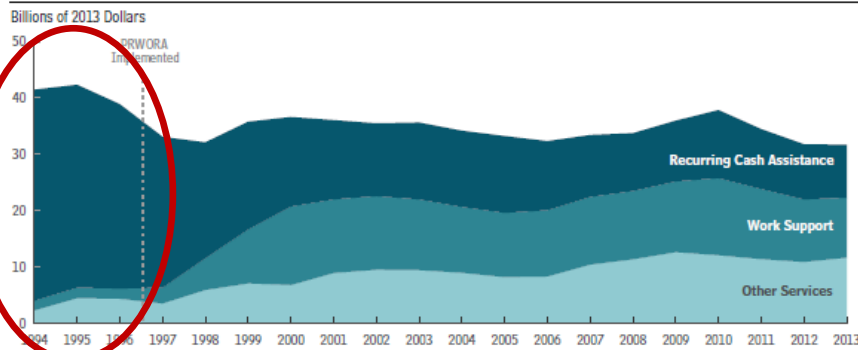
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Expenditures on Specific Means-Tested Programs



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Figure 4.
Spending on TANF and the Programs That Preceded It, by Type of Assistance, 1994 to 2013



Source: Congressional Budget Office based on data from the Department of Health and Human Services.

Notes: Before PRWORA, Aid to Families With Dependent Children distributed recurring cash assistance, while the Job Opportunities and Basic Skills Training program provided work support and the Emergency Assistance program supplied other services for low-income families. Administration and systems costs are distributed proportionally among the three types of assistance.

This figure includes TANF funding that states transferred to the Child Care and Development Block Grant and to the Social Services Block Grant.

Because the available data are limited, the figure does not include three of the smaller federal funding mechanisms for TANF. In every year, those mechanisms have provided less than \$0.3 billion in total.

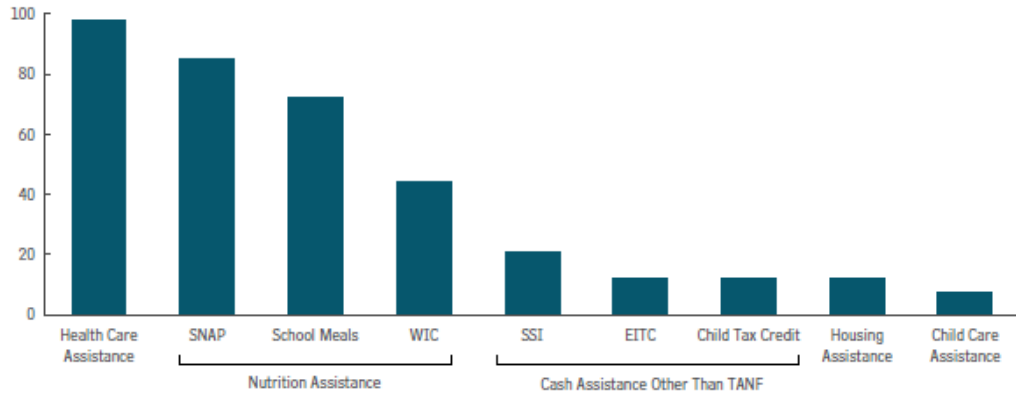
TANF = Temporary Assistance for Needy Families; PRWORA = Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

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Figure 12.

Participation in Other Means-Tested Programs by Families Receiving Recurring Cash Assistance Through TANF

Percentage of Families

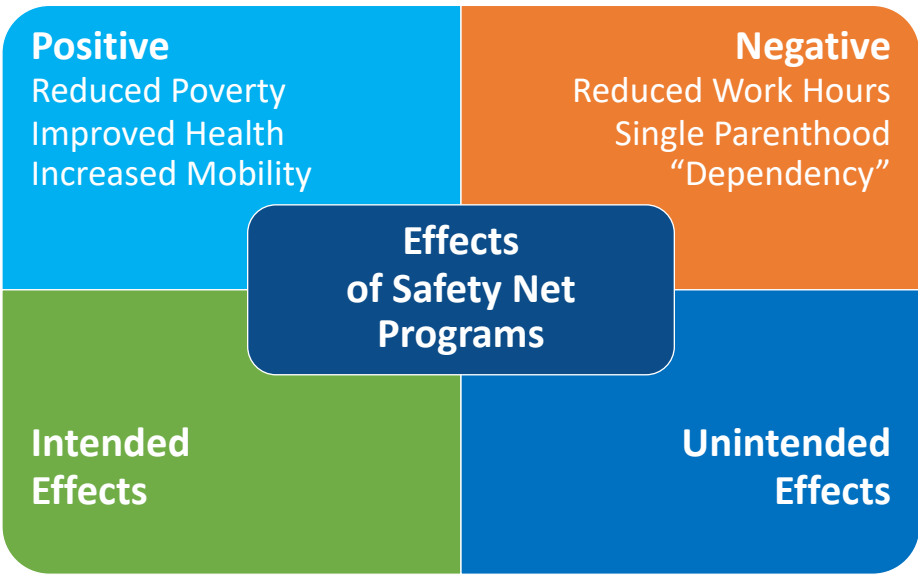


Source: Congressional Budget Office based on data from the Department of Health and Human Services and from the Census Bureau.

Notes: Most of the percentages are based on data from 2012, but for school meals, WIC, and SSI, the most recent readily available data cover 2009.



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Challenge: Measuring Effects of Safety Net on Poverty

- **Official Poverty Measures: Includes only cash income**
 - Excludes: SNAP, EITC, Housing Assistance
- **Supplemental Poverty Measure (SPM):**
 - Includes in-kind & after tax benefits.
- **SPM is a more inclusive measure of what the safety net does.**

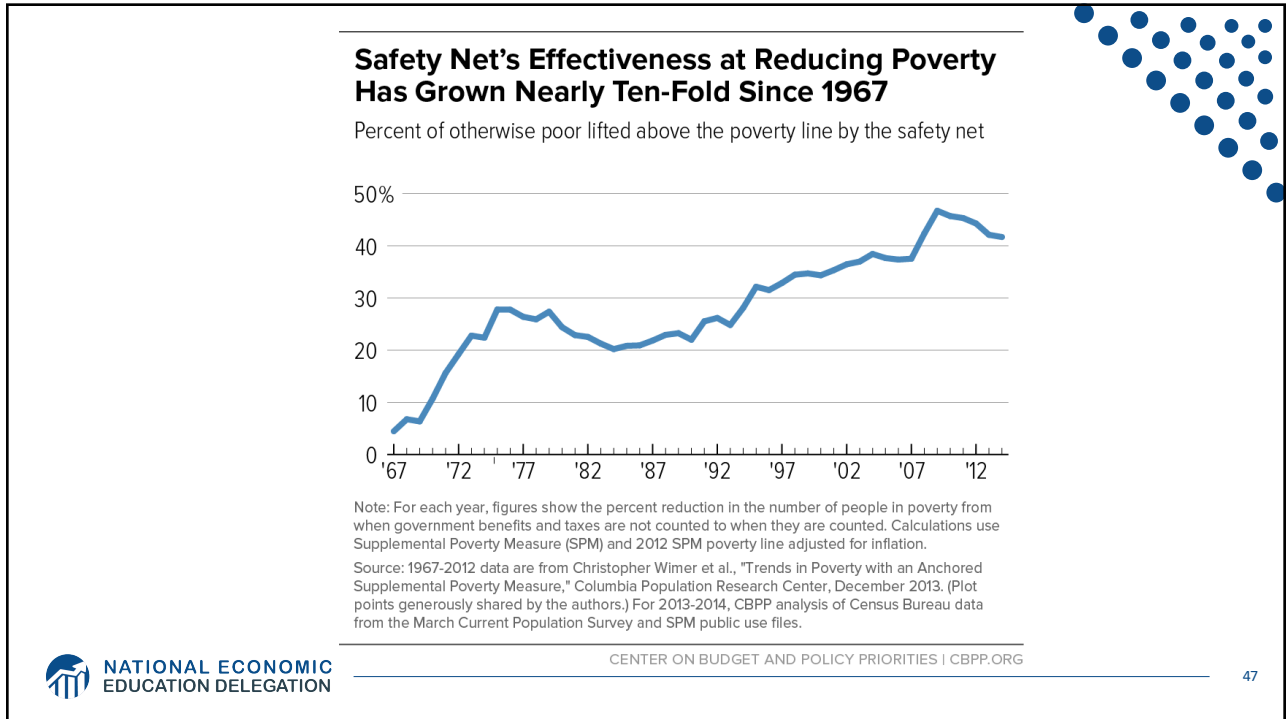
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Table 5a.
Effect of Individual Elements on SPM Rates: 2015
 (Margin of error in percentage points. For information on confidentiality protection, sampling error, nonsampling error, and definitions, see www2.census.gov/programs-surveys/cps/techdocs/cpsmar16.pdf)

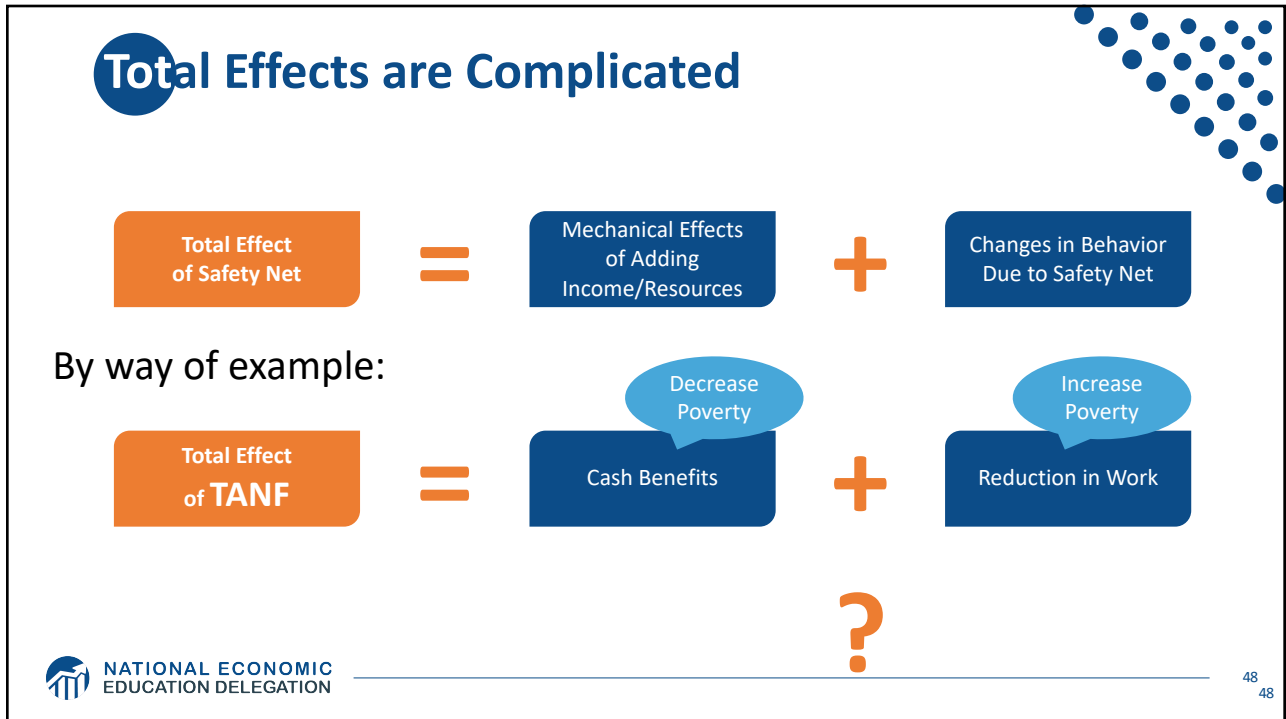
Element	All people		Under 18 years		18 to 64 years		65 years and over	
	Estimate	Margin of error ¹ (±)	Estimate	Margin of error ¹ (±)	Estimate	Margin of error ¹ (±)	Estimate	Margin of error ¹ (±)
All people	14.32	0.28	16.11	0.50	13.80	0.30	13.67	0.50
ADDITIONS								
Social Security	-8.34	0.19	-2.12	0.18	-3.99	0.16	-36.04	0.79
Refundable tax credits	-2.88	0.13	-6.52	0.34	-2.16	0.10	-0.19	0.05
SNAP	-1.44	0.09	-2.70	0.21	-1.13	0.08	-0.77	0.11
SSI	-1.04	0.08	-0.79	0.12	-1.07	0.09	-1.30	0.16
Housing subsidies	-0.80	0.06	-1.16	0.14	-0.61	0.06	-0.99	0.14
Child support received	-0.43	0.05	-1.07	0.13	-0.29	0.04	-0.03	0.02
School lunch	-0.40	0.05	-0.96	0.14	-0.27	0.03	-0.03	0.02
TANF/general assistance	-0.21	0.04	-0.47	0.10	-0.15	0.03	-0.02	0.02
Unemployment insurance	-0.20	0.03	-0.26	0.06	-0.23	0.04	-0.02	0.01
LIHEAP	-0.08	0.02	-0.10	0.04	-0.06	0.02	-0.10	0.04
Workers' compensation	-0.12	0.03	-0.15	0.07	-0.13	0.03	-0.03	0.02
WIC	-0.12	0.04	-0.29	0.09	-0.08	0.02	Z	Z
SUBTRACTIONS								
Child support paid	0.08	0.02	0.07	0.03	0.10	0.02	0.02	0.02
Federal income tax	0.44	0.05	0.37	0.07	0.54	0.06	0.11	0.05
FICA	1.52	0.10	2.07	0.19	1.58	0.10	0.41	0.09
Work expenses	1.75	0.10	2.44	0.22	1.80	0.10	0.47	0.09
MOOP	3.52	0.14	3.41	0.21	3.05	0.16	5.65	0.30

¹ The margin of error (MOE) is a measure of an estimate's variability. The larger the MOE in relation to the size of the estimate, the less reliable the estimate. The MOE is the estimated 90 percent confidence interval. The MOEs shown in this table are based on standard errors calculated using replicate weights. For more information, see "Standard Errors and Their Use" at www2.census.gov/library/publications/2016/demo/p60-256sa.pdf.
 Z Represents or rounds to zero.
 Source: U.S. Census Bureau, Current Population Survey, 2016 Annual Social and Economic Supplement.

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Total Effects are Complicated: EITC

The diagram illustrates the total effects of the EITC through two equations:

- Top Equation:** Total Effect of Safety Net = Mechanical Effects of Adding Income/Resources + Changes in Behavior Due to Safety Net
- Bottom Equation:** Total Effect of EITC = Cash Benefits + Increase in Work

Callouts in the diagram indicate that both 'Cash Benefits' and 'Increase in Work' lead to a 'Decrease Poverty'.

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Full Effect of Safety Net: Includes Behavioral Changes

- Focus on work effects of safety net (one of several possible unintended consequences)
- What does economics tell us about safety net programs and work?

The diagram shows a blue box representing a TANF grant structure:

- Left side:** TANF maximum grant
- Right side:** Grant amount falls with earnings

Annotations include:

- An upward arrow on the left labeled 'Provides benefits'.
- A downward arrow on the right labeled 'Reduces benefits with earnings'.

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Two Effects of Welfare Payment on Work

Welfare Provides Income

- More income increases consumption
- One form of consumption is leisure
- More income reduces work (by encouraging leisure)

Work Reduces Welfare Payments

- Rising earnings reduce benefit level
- Wage for working is effectively reduced
- Welfare discourages work (due to benefit reduction)



What do we know about magnitude of work disincentives from welfare?

- **Many studies**
- **Basic approach is important**



Perfect (but Impossible) Approach to Research

- Randomly divide population into two groups
- Offer some individuals welfare, others no welfare
- Compare how much the two groups work
- Challenge of social science:
no controlled experiments



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Challenges to Empirical Studies

Does welfare use cause low work effort?



But we know low earnings (low work)
result in eligibility for welfare



HARD to
distinguish
between
these two
different
scenarios



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How can we separate correlation (no direction implied) from cause and effect?

- **Can compare work behavior among welfare recipients**
 - Across states with different rules/benefit levels
 - Before-after policy changes within states



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Compare Work Effort in States With Different Benefit Levels



Benefits Year 1
Benefits Year 2

Work Year 1
Work Year 2



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How can we separate correlation (no direction implied) from cause and effect?

- **Can compare work behavior among welfare recipients**

- Across states with different rules/benefit levels
- Before-after policy changes within states
- Challenge: state policies may differ in multiple ways
- Rare to implement NEW safety net programs to study



What evidence do we have?

What does it say?

“ Studies across states, or across states over time, of policy changes ”

~ Robert Moffitt (1983)

- **AFDC program as a whole reduced hours of work by participating single parents by:**

10% to 50%, 546 hours per year



What evidence do we have?

What does it say?

- Study of food stamp program (FSP) introduction
- Work hours per year fall by 183 (20%) among single-parent families in counties introducing FSP (relative to counties that did not)
- About 32% of single parents received food stamps



What evidence do we have?

What does it say?

Overall effect = 183 hours =
fraction receiving food
stamps * (effect for
recipients) +
fraction not receiving *
(effect for non-recipients)

OR

183 = .32 (effect among
recipients) + .68 (0)
Effect among recipients =
183/.32 or 571 hours per
year

**Food Stamp Program as a whole reduced work for recipients by
571 hours per year**



Welfare (TANF) today

- Adds explicit work requirements to welfare program.
- Increase in employment with welfare reform suggests TANF may have smaller work disincentives than prior programs.



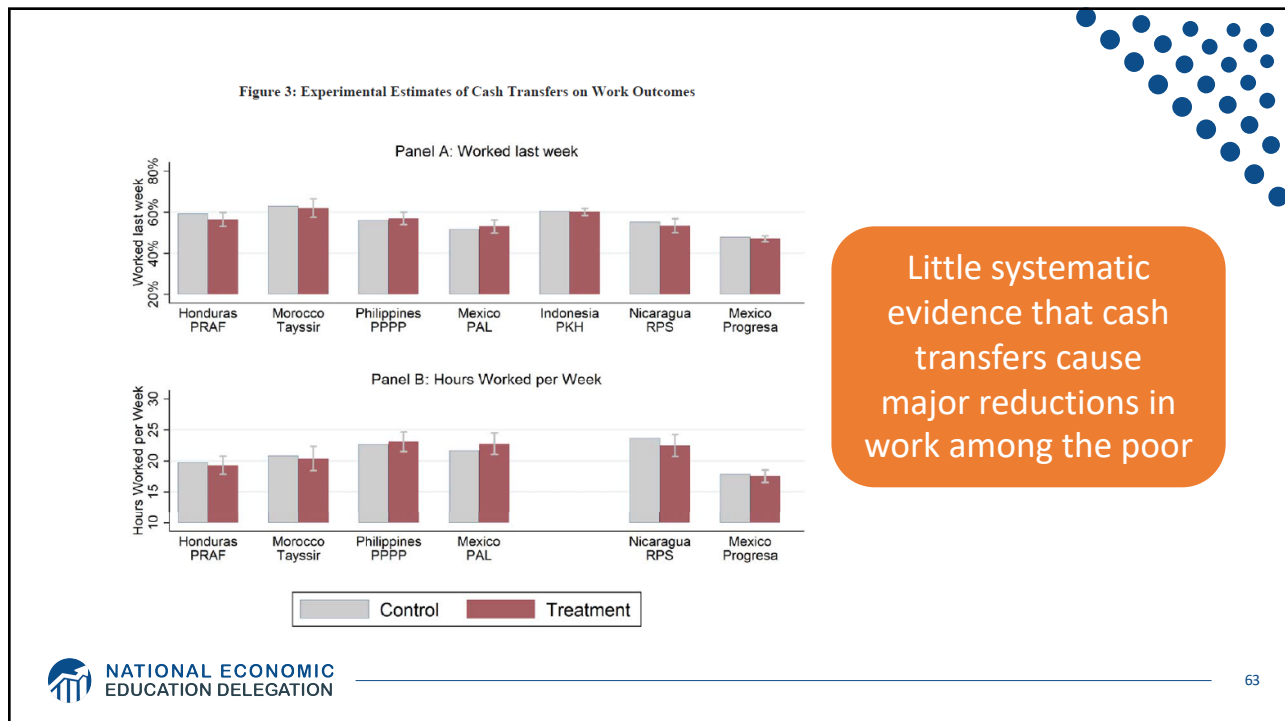
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International Evidence (Developing Countries)

- Abhijit Banerjee & co-authors look across many randomized experiments with cash transfers in developing countries.
- Most programs were cash transfers *with no benefit reduction for work*.
 - This is DIFFERENT than typical U.S. transfer programs.
- Treatment groups received cash transfers; control groups did not.



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How large are welfare/work disincentives?

- **United States: old-style AFDC/Food Stamp programs reduced work by around 500 hours per year among recipients.**
- **TANF likely has smaller effects on work (designed to encourage/require work).**
- **International evidence suggests fairly small effects of cash assistance on work.**

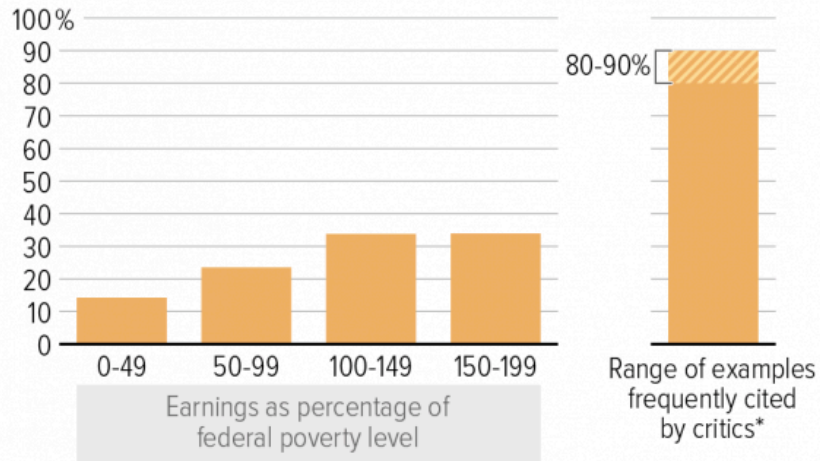
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How Big Are Work Disincentives?

Median marginal tax rate, by earnings group



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Alternative to multi-part safety net: Universal Basic Income (UBI)

- UBI is an unconditional cash transfer that is regularly and equally distributed to everyone over 18, regardless of income or need.
- It is a significant departure from U.S.-style welfare system.

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Examples of UBI or similar programs:

- **Alaska Permanent Fund:**

- Alaskan residents have been receiving a percentage of the Alaskan natural extraction revenue.
- Showed no effect on employment
- Similar to a small UBI

- **Native American Casinos:**

- 2010 study showed that some Native American groups received a percentage of revenue from casinos.
- Showed that recipients didn't decrease hours worked.



Universal Basic Income (UBI)



PROS

- **Provides basic income to everyone**
- **Will help supplement income in face of job loss or low wages**
- **Less disincentive for work**
 - No benefit phase out
 - (based on findings from the Alaskan Permanent Fund where Alaskan residents receive a percent of natural resource extraction profits)



Universal Basic Income (UBI)

CONS

- **Unaffordable:** expensive because of universal nature
- **Does not address inequality:** replaces safety net programs which would provide everyone with transfer incomes, not simply those in need
- **Negative Incentives on work possible:** people wont be as inclined to join the workforce
- **Delays Discussion of Job Creation:** may crowd out discussion of job creation or growth for poverty reduction

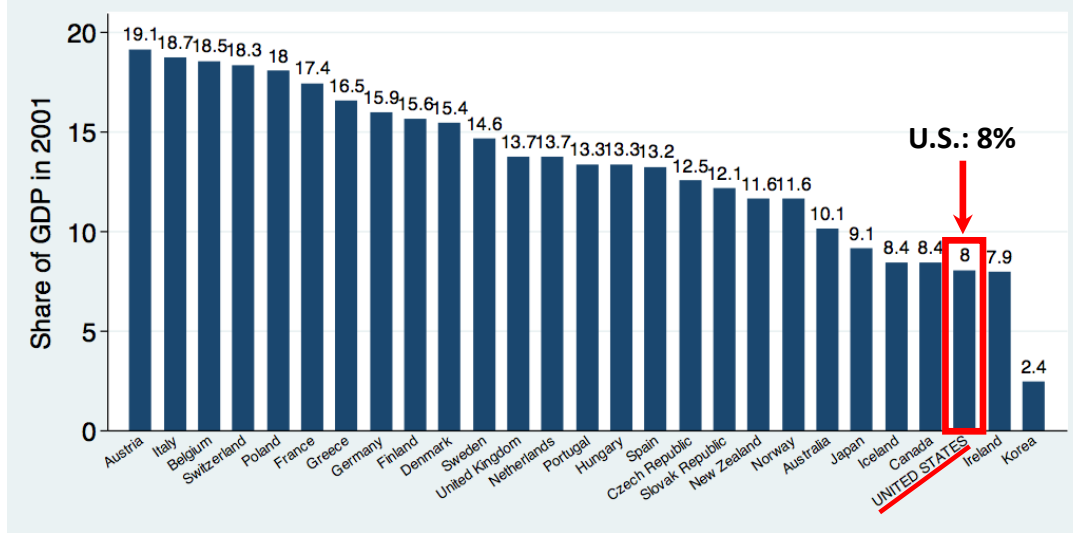


Summary: U.S. Safety Net

- **The U.S. safety net is a complex set of programs to aid the poor.**
 - Medical, nutrition, education, housing, cash
 - Different benefit amounts, eligibility rules, duration of assistance, administration
- **There are unintended consequences on the labor supply, and possibly on marriage and childbearing as well.**
- **There are substantial direct effects on measured poverty under measures that fully account for benefits.**



Safety Net Spending Across the OECD



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Source: World Bank Social Safety Nets Primer Notes

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Thank you!

Any Questions?

www.NEEDelegation.org

Marianne Bitler, Ph.D.

Bitler@UCDavis.edu

Contact NEED: info@NEEDelegation.org

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